World Economy: Starting to Feel like a Slump

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THREE DEMORALISING years of stock market decline, two years of stagnant international trade, an unacceptable overcapacity of production, anaemic investment, rotting infrastructure, fraying social services, betrayed pensions. Little wonder that bourgeois magazines are wheeling out Marx in order to prove that his analysis and views are not relevant to the 21st century. They sense the economic circumstances of their societies are breeding uncertainty, the mulch of any intellectual ferment. Like Bush, they want a pre-emptive strike – on any intellectual challenge to the "triumph" of the market.

For the last two years bourgeois economists have predicted an upturn. Every six months we have witnessed a popping up season when we were told a recovery was imminent. After four popping up seasons that have wilted, economists are now much more circumspect about the prospects of an upturn for 2003. Perhaps it will and perhaps it won't, but the consensus is that the movement will be gentle, and that 2003 should show marginal growth. Ah, for a world where economists were paid piece rates – they would all be starving, and capitalism would be rid of pilots who do not understand the terrain they move on and have no recourse to any charts to guide them.

The theoretical poverty of capitalism is breathtaking. But what does one expect when a society leaves everything to the invisible hand of the market? It throttles the oxygen of intellectual life. The economists are going to be proved wrong yet again. 2003 will see an accelerated deterioration in the economy. It will do so because only one of the two remaining props of the economy remains intact, and that is rising labour productivity.

At the economic discussion at the Socialist Workers Party's *Marxism 2002* last July, I made the point that the balance of class forces continued to favour the employing class and that this would tend to smooth out the economic cycle. In the discussion that followed, many in the SWP contradicted this view by pointing to the rising tide of class struggle. That there has been an upturn in the class struggle is true, but it has not reached the stage where it undercuts the rise in labour productivity, and that is crucial economically and politically.

Until the 1980 recession, labour productivity fell during recessions. But it rose during the next three recessions, most rapidly in the recent and ongoing recession dating back to 2001 (though the rise is overstated). Its main component has been the ability of the bosses to fire workers faster than the fall in sales, resulting in the continued rise in output per worker. In other words, costs have been falling faster than revenues. That is why, in a world economy where prices are stationary, if not falling, profits have been underpinned. This is not a function of technology, as Mr Greenspan would have us believe, but more a function of the balance of class forces, and it is set to continue for the time being.

This rise in labour productivity is the main reason why the shape of the last three recessions have been elliptical rather than V-shaped, as was the case in 1973-4 when workers were last able to defend themselves. The shape of the ongoing 2001 recession is the final reminder of the successful onslaught on the working class led by Thatcher and Reagan.

All Recessions Are in the End a Failure of Consumption

The failing prop, as predicted in the last article (*What Next?* No.23), is faltering consumer spending. It is the loss of this support that will cause the recessionary pace to accelerate. And it will do so in a second sense. By delaying the real recession, consumer spending has raised the point from which the economy must fall, and because it has further now to fall, it will aggravate this fall. The increase in consumer debt will have to be paid back, or written off if workers lose their jobs or suffer wage cuts.

The growth in consumer debt was made possible by the collapse in interest rates. This was a result not so much of government policy but of market forces. With the collapse in the speculative and investment bubble at the end of 1999, excess capital built up finding few borrowers. Under these conditions interest rates have to fall as lenders seek out borrowers whose ranks have been thinned by falling profitability. What government interest rate policies did was to accelerate this process. That governments were able to do so was due to the favourable balance of class forces that bottled up inflation.

In many ways, with the exception of the growth in consumer credit, the unfolding of the 2001 recession was classical. Governments did not have to encourage a crackdown on workers, and so monetary policy was extended to soften the fall in productive investment. Turned away by industry the banks turned to consumers, especially homeowners against whom they could secure their loans. And have they not done well, with their record banking profits? The only profits the major banks rake in these days in fact come from the pockets of indebted consumers.

It was this growth in consumer credit that played such a significant role in sustaining consumption. With this aspect of credit now exhausted, consumption will fall and industry will lose the buffer it has enjoyed, which has enabled it to avoid the large scale restructuring of world production. Already the Keynesians by another name are advising governments to increase their spending to compensate. As the debate is about to turn on the question of underconsumption, it has become vital that we restate the Marxist analysis of consumption.

It is axiomatic that in order for the cycle of reproduction to continue and to expand, what is produced must be consumed. If consumption falls below production, goods remain unsold and the cycle is interrupted. However, in viewing consumption we draw the distinction, which the Keynesians do not, between productive and unproductive consumption. By productive consumption we mean, under capitalism, investment, and by unproductive consumption we mean the consumption by the capitalist class for its own personal use.

Of the two, the far greater part is productive consumption. Of course, the capitalists do not invest on behalf of society for the good of society; they do so only for their own interest, i.e. for profit. As long as the rate of profit improves, the capitalists will continue to invest. As a result production will expand and all will be well in the world of capitalism. However, as soon as the rate of profit falls, so too does the productive consumption of the capitalist class.

This needs a bit of explaining. The cycle of reproduction involves two transactions. At the beginning is a purchase and at the end is a sale. In between is production. The capitalist employer purchases the factors of production. These are then set to work after which the capitalist takes possession of the new commodities. These are then sold. The capitalist makes a profit because the money he receives from the sale exceeds the money he spent on the purchases.

What prevents every person on the planet becoming a capitalist is this conundrum. How does one get money to buy the factors of production before one receives the money from the results of this production. Only the capitalists can bridge this gap in time. And they can do so because they have capital – sufficient money.

Where does this capital come from. It is old money, the accumulation of past proceeds of labour. With yesterday's money, today's production is financed, which is more than repaid by tomorrow's money when the goods are sold. Of course these processes take place independently and in their millions. They are not synchronised, It is like a gigantic orchestra all playing the same piece, but at different paces and at different points in the piece. A deafening cacophony of sound that blocks out the reality of past, present and future labour.

To solve this riddle, the best place to start is at the end. At the conclusion of each cycle of production, the commodities produced are owned by the capitalist class as capital. If the capitalist class at this point went on an investment strike, all these commodities would rot and rust. However, when they invest, these commodities are productively consumed by society.

This occurs primarily in two ways. First, some of them will be consumed by workers in the form of wages, but only if the capitalists invest in employing them. Secondly, the rest will be consumed by the capitalists directly when they invest in purchasing from each other the goods needed for production.

Hence it follows that behind the fall in demand lies the fall in productive consumption – investment. A fall in investment means fewer workers; fewer workers means less wages to spend. A fall in investment in means of production means factories buying less from each other, even factories closing down altogether. When this becomes generalised, a recession breaks out as demand falls below supply in every industry, in every sphere of production.

There is no substitute for the fall in productive consumption in the long run. Governments do not own the past proceeds of labour. These belong to the capitalist class. Governments can only borrow them against the future stream of taxes. If they borrow too much, their borrowing can no longer be supported by the future stream of taxes, especially as this stream dries up because of the recession itself. Hence deficit government spending is self-limiting. At some stage government debt becomes overlarge and has to be repaid, resulting in higher taxes and or a cut back in state spending.

Similarly with workers. The borrowing capacity of workers, whether as owners of houses or not, cannot compensate for the continued fall in jobs, wages and pensions.

In conclusion, what we experience as a fall in demand is really a fall in the productive consumption of the capitalist class. Before the mass of society can consume tomorrow, the capitalists must first invest today. Between the workers and the proceeds of their past labour stands the capitalist class; between consumption and production lies the barrier of profits. (Of course we should not ignore the unproductive consumption of the capitalist class, particularly as the speculative bubble of the '90s certainly gave a boost to the luxury goods sector of the economy; but while this is annoying, it is far less consequential to the state of health of the capitalist economy than is the collapse in their productive investment.)

The main failure of the underconsumptionists is that they fail to recognise that the proceeds of today's labour belong in their entirety to the capitalist class. Unless they invest these proceeds in production tomorrow (from which viewpoint it becomes past labour) production contracts. Accordingly, underconsumption is due not to low wages or reduced taxation, but to inadequate investment. The blame falls on the shoulders of the capitalist class and their investment strike, which stands above their rule of law, and answers only to the level of profitability in their primitive economy.

And if we require an example of this, we need look no further than the US. During the mid to late 1990s, the US experienced rapid growth, despite the fact that real hourly wages fell, as did taxation.

It is Starting to Feel Like a Slump

The mass of society has now reached the limits of their credit, both objectively and subjectively. First, long term unemployment is rising and wages are stagnating. In particular, debt levels, a function of the interaction of interest rates and income levels, has become unsustainable. The slight growth in the world economy has been based on the growth in personal consumption. In those countries like Japan and Germany, where "consumers" have increased their savings, economies are in slump. They will soon be followed by Britain and the US.

A minority, but a growing minority, of bourgeois commentators are predicting a slump on the scale of the 1930s. However, it is unlikely that this recession will be as deep as that. This being said, 2003 will have more of the feel of a slump to it than the years 2001 and 2002. And it will do so because retail and housing will join industry in recession.

Until now consumer spending, particularly in the US, has cushioned companies faced with overcapacity on a world scale. Originally seen as the means of buying time in order for companies to restructure, consumer spending has actually delayed this restructuring. In the car industry, for example, there is roughly one-third overcapacity at present sales levels.

Once consumer spending collapses, large scale restructuring will have to take place. Until now this has been largely confined to the TMT (telecommunications including aspects of the computing) industry. It was here that over-investment was at its worst, and the post-1996 bubble-economy was concentrated. However, significant over-investment took place in every other sphere in the wake of all this exuberance.

This restructuring will involve every country, with the centre of gravity in the US. We have already seen a 13% decline in the value of the dollar last year. Despite this decline, the trade deficit approaches the critical level of 5% of GNP, indicating that the Dollar still has far to fall. The combination of world currency supported by the most indebted state in the world, the USA, is likely to spark a crisis in confidence in the Dollar and unsettle world markets.

Paradoxically the fall in the Dollar will allow the US to export part of this overproduction to Europe and Japan (though not China, whose currency is pegged to the Dollar). While the Japanese authorities have tried to curb the rise in the Yen against the Dollar, the same cannot be said about the European Central Bank. Its interest rate policy is geared towards maintaining the strength of the Euro. It is a long term view, an unspoken view that has less to do with inflation, than establishing the Euro as the alternative to the Dollar. The unstated ambition is that the Euro will benefit from the intensifying oscillations of the Dollar and be seen as the safe planetary currency.

Whether the European bourgeoisie will be able to sustain this strategy in uncertain. It is unlikely that the European bourgeoisie will be able to maintain the stability of the Euro. Faced with a wave of exports from China and the US, with rising unemployment, and with the growing unpopularity internally of the Euro, the pressure will grow to reduce interest rates and devalue the Euro. For the moment, however, the EU maintains an overall balance of payments surplus.

Now we see how ridiculous are those British groups (the SWP and through it the Socialist Alliance) who hope to undermine a "bosses'" Europe through supporting the collapse of the Euro. This only plays into the hands of US imperialism. Should the Euro collapse, it is not the workers of Europe who would gain, but the bourgeoisie in the US as they re-establish the hegemony of the greenback.

If, despite its economic woes, the Euro becomes established as a stable alternative currency to the Dollar, Britain will hold a referendum to join. Brown's five economic tests are a patriotic distraction aimed at settling local nerves. The British bourgeoisie will decide en masse to join when they become convinced it is unavoidable. And that realisation will come, not this side of a crisis in confidence over the Dollar, but on the other side, when and as the Euro is shown to be a more credible currency, backed as it is by the assets of an economy that is a creditor to the world, not a debtor as in the case of the USA.

In passing, we may point out that a crisis of confidence in the Dollar, combined with a world in economic turmoil, on which the small UK ship is thrown about, will be used to great effect to sway British opinion. It may very well produce a "Yes" majority, but this conversion on the road to Threadneedle Street is not imminent.

It appears I was wrong in predicting in my earlier articles that Europe would fare better than the US. Clearly, in 2002, growth rates were better in the US than Europe by a wide margin. Perhaps I was guilty of paying too little attention to the fact that the grip of US employers on their workers is greater than in Europe.

It is of course true that the absolute rate of exploitation in the US is far greater than in Europe. US workers work much longer hours than their European counterparts. It is also true that the lack of organisation within the ranks of the US working class means that the US employers have been able to ratchet up the absolute rate of exploitation more dramatically over the last two years than has been the case in Europe. Flexibility – that is the euphemism capitalists have for adjustments to the absolute rate of exploitation.

However, it is doubtful that in terms of relative rates of exploitation, i.e. in terms of investment rather than hours, the US has been more successful. The US has squandered much more investment. Investment has been concentrated much more narrowly than in Europe, mainly on information technology and the military. It is no accident that Airbus is beginning to squeeze Boeing, despite being spread over many European countries.

So while the United States is better at lengthening the unpaid part of the working day by extending it, Europe is better at shortening the paid part through more investment. Investment per worker in Germany and France is greater than in the US. In the long run, the level of productivity measured in hours is more decisive, and in that case, if the European bosses succeed in extending the working day, as their US counterparts have achieved already, it is Europe that will have the upper hand. This statement is no more surprising than one made in the late 1980s, that said the US would prevail against Japan in the 1990s. We will return to this point at the end of the article when we look at debt.

Globalisation

We will also have deflation. The opening up of the world economy to increasingly unrestricted trade has exposed every national economy to the overcapacity that exists on a world scale. Flowing on the currents generated by the ebb and rise of exchange rates, international trade will first lap on the shores of this country then that, driving down prices.

Only when consumer spending has collapsed will the real scale of overcapacity be revealed. Up to now, rationalisation has not progressed on the scale of the recession ten years ago, let alone that of the early 1980s. And yet the forces of deflation make restructuring more important, not less important, than the forces of inflation.

Inflation reduces debt, while deflation increases it. Deflation makes it more difficult to pay off debt because prices, and therefore revenue, are falling. Inflation, on the other hand, increases money revenue even if volumes are falling. We have not experienced rationalisation under conditions of deflation since the 1930s.

It is likely to be brutal and comprehensive. It will not be the same as the 1980s, but will be more extensive. In the 1980s, parts of the world economy, for example the Pacific Rim, continued to grow. Now every economy, including China, will stagnate.

In the late 1980s, the main tension was between the US and Japan. Following a decade of grinding slump in Japan, it is almost comical to remember how the US panicked about being overtaken and taken over by Japan. This time the main fault line will lie between the US and the EU. The tensions between the US and Germany/France over Iraq are a foretaste of the more fundamental and dangerous tensions that will arise over economic conflicts.

The expanded EU will gradually consolidate. The major EU economies will turn the east into a glorified Mexico and gradually displace the US as the main investor there. Europe will draw on Russia's military conquests to close the gap between itself and the US. Caught between these two blocs, Britain will play the go-between at first.

But ultimately, with its economic centre of gravity located in Europe, it will turn its back on the Atlantic and jump the Channel.

The Debt Bubble

The debt bubble in the US and Britain has not been popped. While the fall on Wall Street has been less than 1929 in percentage terms, in reality it has been greater. Whereas in 1929 the value of shares on Wall Street was a fraction of GNP, in 2000 the value of shares on Wall Street and the Nasdaq was double that of GNP. Measured this way, the fall in shares in absolute terms exceeds that of 1929.

It has been only the rapid and responsive easing of interest rates that has allowed the debt burden to be tolerated and has prevented the chain of credit snapping. But interest rate falls have been more or less exhausted, particularly in the US. While on the surface it appears that US corporate debt has improved, it has not. When the scale of pension liabilities is revealed, we will see that in fact this debt is far greater than before.

With productivity gains now subsiding in the wake of falling investment and overlong working hours, the outlook for profits has grown grimmer. Add to this the set aside from profits for future pension provision, and we see only falling profits. In the end it is profits not interest rates which are decisive.

As predicted, Bush Laden is doing more damage to the US economy than the Arab militant ever could. Even before the Iraqi war, his blatant hand-outs to the rich have raised the government deficit to over three per cent, more if the debts of local cities and states are factored in. Even before the recession has really kicked in, Bush has squandered most of the state surplus. Little wonder 800 economists wrote a letter berating his rash policies.

The outlook for the US economy is not dissimilar to that of Japan. While the US banks have largely managed to avoid an economic crisis, this is due to two short term factors: super-interest rates from credit cards and personal loans, as well as farming out debts through securitization and insurance. Extortionate interest rates on personal loans are no longer compensating for the growth in defaults and this source of profits is drying up.

In addition, the socialisation of debt is beginning to backfire. In the 1990s cross holdings between Japanese banks and corporations were criticised for making it impossible to make corporations bankrupt. In the US the socialisation of debt is throwing up problems not dissimilar to cross holding. With so many individuals, institutions and companies sharing bad debts it is going to make it very difficult to unravel these bad debts through bankruptcies.

Hence the outlook for the USA, Britain and the rest of the world is that of Japan. The mountain of debt in the USA has not been worked through. It will take many years to do that, more years than would have been the case with inflation. *Stagdeflation*, stagnation and deflation, is the order of the day.

Africa has been devastated. Latin America follows suit. Soon it will be Asia. Economic chaos and political barbarism predominate. Capitalism can only sustain itself if the economies of the imperialist world still function. This represents the greatest challenge to capitalism. If every economy on the planet now stagnates, whither capitalism?

Bush perceives the need to impose military rule where once economic rule sufficed – a military backbone to hold up an atrophying economic body. In response, we see the emergence of a mass anti-war movement. The greatest military power in history begets the biggest spontaneous anti-war movement in history. The US may possess fists of electronic steel, but it is standing on feet of clay – that is what the anti-war movement has revealed. It is a hint of the power of the masses to come.

The unbridled triumphalism of capitalism following the collapse of the Soviet Union is over. Neo-liberalisation is on its way out – here Latin America leads the way, in particular Venezuela. Soon it will become a swear word all over the world. State intervention and protectionism will replace it, as tottering national capitalists are forced to lean on the crutch of the state.

Blair and Brown, who nailed their banner to the mast of neo-liberalisation are yesterday's men. They will be dragged down as their PFI-financed ship sinks, holed by hidden costs and swamped by waves of corruption. Already, even before the slump proper has started, the main political parties in every country are in disarray and discredited. The post-war consensus of large electoral turnouts and credible bourgeois parties is over.

The case for socialism is now more urgent than ever. The bourgeoisie have made their ideological pre-emptive strikes. It is a sign, not of their confidence but of their growing panic. They really believed that the fall of living socialism in the east had closed the debate. Now they find their growing economic crises have reopened it.

This year will see the first year when the feel of slump will be in the air. House prices will begin to tumble and shops close their doors. The realisation that years of stagnation have set in, and the consequent demoralisation of the ideologues of the capitalist class, are the pages and ink of the book that we must compose to convince the world there is an alternative to capitalism, one on which the future of mankind depends. ■